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AICPA *Washington Report*

September 15, 1986, Volume XV, Issue 28

FARM CREDIT ADMINISTRATION	Merger, Consolidation, final regulations published p. 1
SEC	Comments sought on public disciplinary proceedings p. 1
	Commission issues Staff Accounting Bulletin, rulemaking agenda . . p. 1
SBA	Catalog of Completed Research Studies available p. 2
TRANSPORTATION	States' reporting requirement eliminated p. 2
TREASURY	Partnership debt regulation issued by IRS p. 2
SPECIAL:	GAO recommends changes to reduce IRS interest payment costs . . . p. 3

FARM CREDIT ADMINISTRATION

"Farm Credit System; Merger, Consolidation, Etc." is the title of a final rule promulgated by the Farm Credit Administration Board implementing amendments to the Farm Credit Act of 1971 (see the 9/12/86 Fed. Reg., pp. 32431-48). This final rule relates to mergers, consolidations, territorial transfers and conservatorships and receiverships of System institutions. Of particular interest are three sections of the final rule relating to the responsibility of the receivers which include preparing an inventory of the assets and liabilities of the institution, making regular reports to stockholders and conducting an audit. The final rule stipulates that the audit may be conducted by the Farm Credit Administration, or at the FCA's discretion, by a CPA. Notice of the effective date will be published at a later time. For further information contact Gary L. Norton at 703/883-4020.

SECURITIES AND EXCHANGE COMMISSION

Amendments to the Commission's Rules of Practice, under which administrative disciplinary proceedings against professionals practicing before the SEC are brought, were discussed at a 9/10/86 Open Meeting. At that meeting the Commission decided to propose for comment alternative amendments to Rule 2(e) (7), which presently provides that proceedings brought under the Rule shall be non-public unless the Commission, on its own motion or at the request of a party, directs otherwise. The Commission will seek comments on three alternative amendments: 1) To provide for Rule 2(e) hearings to be public unless the Commission, on its own motion or at the request of a party, directs otherwise; 2) To provide that hearings in specified classes of proceedings shall be public; or 3) To amend the Rule so that the Commission will determine to hold public hearings on a case-by-case basis. The Commission will also seek comments on whether Rule 2(e) (7) should remain in its present form. Strong support for the Rule change came from Commissioner Peters who attributed the need for the amendments to changes in public attitudes for open government and increased scrutiny and regulation of the accounting profession. An attempt by Chairman Shad to make the proposal less biased toward public hearings was unsuccessful, but Commissioner Grundfest was able to obtain a consensus to instruct the staff to include language in the proposal recognizing reasons for having the proceedings remain closed to the public. For further information contact Phillip D. Parker at 202/272-2214.

A Staff Accounting Bulletin regarding accounting for research and development arrangements was issued 9/11/86. The Bulletin is No. 63 and is entitled "Research and Development Arrangements." It states the staff's position regarding the application of the provisions of Statement of Financial Accounting Standards No. 68, "Research and Development Arrangements," when the parties that fund an enterprise's research and development activities are affiliated or related to the enterprise performing those activities. For further information contact John A. Heyman at 202/272-2130.

Also published recently by the Commission was an agenda of its open and anticipated rulemaking actions. The agenda is a general announcement to the public intended to provide advance notice of rulemaking actions. A list of rule reviews anticipated to be completed during the next 12 months is also included. Public comments on individual agenda entries are due by 12/31/86. Copies of the agenda are available from the SEC, Office of Public Affairs, 450 5th Street, N.W., Room 1015, Washington, D.C. 20549, 202/272-2650. For further information contact William J. Atkinson at 202/272-7100.

SMALL BUSINESS ADMINISTRATION

The Catalog of Completed Research Studies published by the Office of Advocacy of the SBA is now available. The Catalog lists more than 200 SBA contracted research studies completed between 1978 and 1986. The Office of Advocacy is responsible for examining the role of small business in the economy and the research studies have provided the Office a factual basis to promote policies that strengthen the performance of U.S. small business, according to the SBA. The studies cover a wide range of topics including: Business Formation, Growth and Decline; Competition; Finance, Interest and Credit; Government Procurement and Regulation; and Taxes. A copy of the Catalog is available from the National Technical Information Service, U.S. Department of Commerce, 5285 Port Royal Road, Springfield, VA 22161, 703/487-4650.

TRANSPORTATION, DEPARTMENT OF

The regulation regarding the collection of accrued unbilled cost information for Federal highway programs has been rescinded by the Federal Highway Administration (see the 9/12/86 Fed. Reg., p. 32453). Title 31, United States Code requires Federal agencies to maintain accounting records on an accrual basis. The States are obligated to report accrued unbilled costs for all FHWA Federal-aid programs for the FHWA's accounting records. Since the Administration is now able to develop the accounting cost information internally, the quarterly reporting requirement and a related semi-annual review requirement have been eliminated. For further information contact Max Inman at 202/366-0562.

TREASURY, DEPARTMENT OF

Regulations relating to allocations of loss and deduction attributable to nonrecourse debt of partnerships were recently approved by the IRS (see the 9/9/86 Fed. Reg., pp. 32061-71). Under the final rules, allocations of loss and deduction attributable to nonrecourse debt will be deemed made in accordance with partner's interest in the partnership as long as four requirements are met. First, requirements to maintain capital accounts and have liquidation distributions made in accordance with capital account balances must be satisfied. Second, the partnership agreement must provide that allocations of such loss and deduction are made in a manner that is reasonably consistent with allocations of some other significant partnership item attributable to partnership property securing the nonrecourse liabilities (other than minimum gain recognized by the partnership). Third, either the requirement relating to the restoration of partners' deficit capital account balances must be satisfied, or the partnership agreement must contain a "minimum gain chargeback." Lastly, all other material partnership allocations and capital account adjustments must be recognized. Allocations not qualifying under this safe harbor must be made in accordance with the partners' overall economic interests in the partnership. Additionally, the regulations clarify that the amount of a partner's share of minimum gain shall be treated as a limited deficit make-up obligation for purposes of the alternative economic effect test. The rules are effective for partnership taxable years beginning after 12/31/75. For further information contact Mr. John Schmalz at 202/566-3297.

SPECIAL: GAO RECOMMENDS CHANGES TO REDUCE IRS INTEREST PAYMENT COSTS

Taxpayers could receive earlier refunds and the IRS could achieve interest savings if recommendations made by the General Accounting Office (GAO) study were acted upon by the Congress. The GAO made its recommendations to the Joint Committee on Taxation of the U.S. Congress in a report entitled "Options for Speeding Tax Refunds and Reducing IRS' Interest Costs." The report states that interest savings could be achieved and some taxpayers issued refunds earlier if the IRS: 1) had an interest-free period to issue refunds claimed on amended returns; 2) issued refunds on some amended returns before examining the refund claim; and 3) had an interest-free period to issue refunds on non-income-based taxes. The GAO estimated that IRS processed about 1.5 million amended returns and "paid about \$419.4 million in interest on amended return refunds during Fiscal Year 1983." Furthermore, GAO reported that "\$330.3 million of this interest was for returns for which IRS does not have an interest-free processing period." These returns were filed an average of about one year from the time the original returns were filed, and they took an average of about 81 days to process. And, again using Fiscal Year 1983 data, the GAO estimated that interest payments for non-income-based returns cost the IRS about \$3 million. Regarding the issuance of refunds on amended returns, the GAO noted that the refund could be issued prior to the detailed examination of the return, while the IRS retained its "discretion to hold payment on those returns it determined had a high potential for disallowance." The GAO report does not specify how long the grace period should be, but noted that 45 days "would make the treatment of these returns consistent with the treatment of original income tax returns." A copy of the report, GAO/GGD-86-72, may be obtained by writing the U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20877 or by calling the GAO at 202/275-6241.

For further information contact Shirley Hodgson or Joseph Petito at 202/872-8190.

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